

Chapter 10

Determination of Close-out Value

10.1 Close-out Value

The close-out value for each Contract will be determined in the Base Currency, and shall be the difference between the aggregate net Variation Margin (but excluding Routine Intra-day Variation Margin) settled by the relevant Clearing Member up to and including the last End-of-Day Settlement Process immediately preceding the Final Settlement Cycle Determination Date in respect of such Contract and the Close-out Variation Margin relating to such Contract, where:

“Close-out Variation Margin” means, with respect to a Contract, the net present value relating to such Contract as determined by OTC Clear using calculation methodology similar to that used to determine Variation Margin in the End-of-Day Settlement Process, except that, (a) for Contracts other than Standard Northbound Rates Derivatives Contracts, the relevant calculations will be determined on the basis of the curve(s) built and pricing input(s) and instrument quote(s) obtained as at 11:00 hours Hong Kong time, and (b) for Standard Northbound Rates Derivatives Contracts, the relevant calculations will be determined in accordance with calculation methodology published by Special Clearing House Participant, referencing curve(s) built and pricing input(s) and instrument quote(s) obtained as at 16:00 hours Hong Kong time, in each case, on:

- (i) with respect to a Contract being terminated as a result of the occurrence of Rates and FX Clearing Termination Event, the Final Settlement Cycle Determination Date determined in accordance with section 10.2 of these Clearing Procedures;
- (ii) with respect to a Contract (except a Standard Northbound Rates Derivatives Contract) which is the subject of Emergency Close-Out, or which is being terminated during the OTC Clear Failure to Pay Grace Period or as a result of the occurrence of an OTC Clear Failure to Pay Event or OTC Clear Insolvency Event, the Final Settlement Cycle Determination Date determined in accordance with section 10.3 of these Clearing Procedures;
- (iii) with respect to a Standard Northbound Rates Derivatives Contract which is the subject of Emergency Close-Out, or which is being terminated during the OTC Clear Failure to Pay Grace Period or as a result of the occurrence of an OTC Clear Failure to Pay Event or as a result of the occurrence of an OTC Clear Failure to Pay SHCH Event or OTC Clear Insolvency Event, the Final Settlement Cycle Determination Date determined in accordance with section 10.3.2 of these Clearing Procedures;
- (iv) with respect to a Contract being terminated as a result of the occurrence of a Product Suspension Event, the Final Settlement Cycle Determination Date for such Product Suspension Event pursuant to section 10.4 of these Clearing Procedures;
- (v) with respect to a Contract (except a Standard Northbound Rates Derivatives Contract) being terminated as a result of a Contract Termination Event, the Final Settlement Cycle Determination Date determined in accordance with section 10.5.1 of these Clearing Procedures; and

- (vi) with respect to a Standard Northbound Rates Derivatives Contract being terminated as a result of a Contract Termination Event, the Final Settlement Cycle Determination Date determined in accordance with section 10.5.2 of these Clearing Procedures.

The Close-out Variation Margin amount determined in any of the situations described in sub-paragraph (i), (ii), (iv) or (v) above will not be adjusted by PAI and in sub-paragraph (iii) or (vi) above will be adjusted by PAI.

10.2 Rates and FX Clearing Termination Event

In the case of a winding down of the Rates and FX Clearing Service pursuant to Clearing Rules 1530 to 1540, OTC Clear will determine the Close-out Variation Margin for all Contracts on the Final Settlement Cycle Determination Date, where the “**Final Settlement Cycle Determination Date**” shall fall on:

- (i) if a Rates and FX Clearing Termination Event is declared by OTC Clear at or prior to 09:00 hours Hong Kong time on an OTC Clear Business Day, such OTC Clear Business Day; or
- (ii) if a Rates and FX Clearing Termination Event is declared after 09:00 hours Hong Kong time on an OTC Clear Business Day, the OTC Clear Business Day immediately following the day on which such Rates and FX Clearing Termination Event is declared.

OTC Clear will announce the decision to determine the Close-out Variation Margin with respect to all Contracts by 09:00 hours Hong Kong time on the relevant Final Settlement Cycle Determination Date.

10.3 Emergency Close-Out or OTC Clear Default

10.3.1 Upon the designation of an Early Termination Date pursuant to Clearing Rule 210, 1320(1), 1321(1) or 1322, OTC Clear will determine the Close-out Variation Margin for all applicable Contracts except Standard Northbound Rates Derivatives Contracts on the Final Settlement Cycle Determination Date, where the “**Final Settlement Cycle Determination Date**” shall fall on:

- (i) if an Early Termination Date is declared by OTC Clear at or prior to 09:00 hours Hong Kong time on an OTC Clear Business Day, such OTC Clear Business Day; or
- (ii) if an Early Termination Date is declared after 09:00 hours Hong Kong time on an OTC Clear Business Day, the OTC Clear Business Day immediately following the day on which such Early Termination Date is declared.

OTC Clear will announce the decision to determine the Close-out Variation Margin with respect to all applicable Contracts except Standard Northbound Rates Derivatives Contracts by 09:00 hours Hong Kong time on the relevant Final Settlement Cycle Determination Date.

- 10.3.2** Upon the designation of an Early Termination Date pursuant to Clearing Rule 210, 21J14, 1320(1), 1321(1) or 1322, OTC Clear will determine the Close-out Variation Margin for all applicable Standard Northbound Rates Derivatives Contracts on the Final Settlement Cycle Determination Date, where the “Final Settlement Cycle Determination Date” shall fall on the Participants Termination Date pursuant to Clearing Rule 21E05 or the Early Termination Date pursuant to Clearing Rule 21J14.

OTC Clear will announce the decision to determine the Close-out Variation Margin with respect to all applicable Standard Northbound Rates Derivatives Contracts on the relevant Final Settlement Cycle Determination Date.

10.4 Product Suspension Event

In the case of a Product Suspension Event pursuant to section 3.4A of these Clearing Procedures, OTC Clear will determine the Close-out Variation Margin for all Contracts in respect of which a Product Suspension Event has occurred on the Final Settlement Cycle Determination Date, where the Final Settlement Cycle Determination Date shall fall on:

- (i) if a Product Suspension Event is effective at or prior to 09:00 hours Hong Kong time on an OTC Clear Business Day, such OTC Clear Business Day; or
- (ii) if a Product Suspension Event is effective after 09:00 hours Hong Kong time on an OTC Clear Business Day, the OTC Clear Business Day immediately following the day on which such Product Suspension Event is effective.

OTC Clear will announce the decision to determine the Close-out Variation Margin with respect to all applicable Contracts in respect of which a Product Suspension Event has occurred by 09:00 hours Hong Kong time on the relevant Final Settlement Cycle Determination Date.

10.5 Contract Termination Event and Special Clearing House Participant Default

- 10.5.1** In case of a Contract Termination Event pursuant to Clearing Rule 21J04, 1918A or 1918AA, OTC Clear will determine the Close-out Variation Margin for all Identified Contracts except Standard Northbound Rates Derivatives Contracts on the Final Settlement Cycle Determination Date, and for such purpose the “**Final Settlement Cycle Determination Date**” shall fall on:

- (i) if a Contract Termination Event is declared by OTC Clear at or prior to 09:00 hours Hong Kong time on an OTC Clear Business Day, such OTC Clear Business Day; or
- (ii) if a Contract Termination Event is declared after 09:00 hours Hong Kong time on an OTC Clear Business Day, the OTC Clear Business Day immediately following the day on which such Contract Termination Event is declared.

OTC Clear will announce the decision to determine the Close-out Variation Margin with respect to all Identified Contracts except Standard Northbound Rates Derivatives Contracts by 09:00 hours Hong Kong time on the relevant Final Settlement Cycle Determination Date.

- 10.5.2** In case of a Contract Termination Event pursuant to Clearing Rule 21J04, 1918A or 1918AA, OTC Clear will determine the Close-out Variation Margin for all Identified Contracts which are Standard Northbound Rates Derivatives Contracts on the Final Settlement Cycle Determination Date, where the “Final Settlement Cycle Determination Date” shall fall on the Early Termination Date pursuant to Clearing Rule 21J03 or the Final Settlement Cycle

Determination Date shall be determined as agreed between OTC Clear and the Special Clearing House Participant pursuant to Clearing Rule 21M05.

OTC Clear will announce the decision to determine the Close-out Variation Margin with respect to all Identified Contracts which are Standard Northbound Rates Derivatives Contracts on the relevant Final Settlement Cycle Determination Date.